

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-05 RSC-01 DRC-01 /018 W

----- 105614

R 111450Z SEP 74

FM AMEMBASSY SANTO DOMINGO

TO USDOC WASHDC

SECSTATE WASHDC 1438

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E.O. 11652: N/A

TAGS: ENRG, BMEP, BEXP, DR

SUBJECT: PETROLEUM EXPLORATION IN THE DOMINICAN REPUBLIC

REF : SD 3586

COMMERCE FOR DIBA/OED/MEPD AND FOREIGN INVESTMENT STAFF

1. SUMMARY. AMERICAN ULTRAMER DELIVERED PETROLEUM EXPLORATION REPORT TO PRESIDENT BALAGUER AUGUST 28 WITH AN ACCOMPANYING LETTER CONCLUDING THAT THERE ARE SEVERAL BASINS IN THE DR WHICH MIGHT HAVE EXPLOITABLE OIL. ULTRAMAR RECOMMENDED THAT NO ONE COMPANY BE GIVEN MORE THAN ONE BASIN AS A CONCESSION, AND THAT EACH CONCESSIONAIRE BE COMMITTED TO EXPLORATORY WORK, INCLUDING DRILLING, WITHIN A SPECIFIED TIME. ULTRAMAR OFFERED TO ASSIST GODR IN FORMULATING AND IMPLEMENTING AN EXPLORATION POLICY. EXPLORATORY COSTS, TO BE BORNE BY CONCESSIONAIRES, WOULD BE APPROXIMATELY \$27 MILLION. AMBASSADOR WAS SHOWN AND PROMISED COPY OF TWO VOLUME REPORT WHICH IS BASED ON ALL PREVIOUS EXPLORATORY WORK, INCLUDING PAST DRILLING, AND ON VISIT OF ULTRAMAR GEOLOGIST TO SITES OF OIL SEEPAGES AND OLD WELLS. ONE SHALLOW WELL IN 1940'S PRODUCED 200 BARRELS PER DAY. ANALYSIS OF OIL SHOWS LOW SULFUR CONTENT. ALTHOUGH GODR HAS NO CAPABILITIES IN DEVELOPING OIL POLICY, PRESIDENT BALAGUER'S PAST EXPERIENCE IN HIRING INDEPENDENT CONSULTING FIRM TO NEGOTIATE WITH FALCONBRIDGE ON FERRONICKLE MAY PROMPT HIM TO MOVE FAIRLY EXPEDITIOUSLY. ULTRAMAR

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OFFICIALS SEEM TO BE CAUTIOUSLY OPTIMISTIC ABOUT PETROLEUM

PROSPECTS IN THE DR. END SUMMARY.

2. FOLLOWING BRIEFING FOR EMBOFFS FROM OFFICIALS OF AMERICAN ULTRAMAR/CORPA ON PETROLEUM EXPLORATION REPORT WHICH ULTRAMAR VICE PRESIDENT ROY BROTHERHOOD WAS DELIVERING SAME EVENING (AUG 28) TO PRESIDENT BALAGUER, LOCAL COMPANY REPRESENTATIVE, MARCOS CICERO, WAS INVITED TO CALL UPON THE AMBASSADOR TO DISCUSS REPORT FURTHER.

3. CICERO BROUGHT WITH HIM COPY OF THE TWO BOUND VOLUMES MAKING UP THE EXPLORATION REPORT AND A COPY OF BROTHERHOOD'S ACCOMPANYING LETTER OF AUGUST 28 TO BALAGUER. THE REPORT HE BEGGED OFF LEAVING ON GROUNDS IT WAS HIS LAST COPY. HE PROMISED TWO COPIES IN ENGLISH, HOWEVER, WITHIN TWO WEEKS TIME. A COPY OF THE LETTER, WITH TRANSLATION INTO ENGLISH, IS BEING FORWARDED TO DEPT BY AIRGRAM.

4. LETTER STATES THAT ACCOMPANYING REPORT, ENTITLED "GENERAL GEOLOGY AND PETROLEUM POSSIBILITIES IN THE DOMINICAN REPUBLIC," CONCLUDES, AMONG OTHER THINGS, THE FOLLOWING:

A. THE PRESENCE OF VARIOUS SEDIMENTARY BASINS WHICH COULD GENERATE AND ETNRAP HYDROCARBONS.

B. THE NEED TO CARRY OUT EXPLORATION TO TRY TO DETERMINE FAVORABLE STRUCTURES CONTAINING HYDROCARBONS.

C. THE APPROXIMATE INVESTMENT NEEDED TO CARRY OUT SUCH EXPLORATIONS WOULD BE \$27 MILLION.

5. ULTRAMAR STATES THAT WITH ITS LONG INTERNATIONAL EXPERIENCE IN EXPLORATIONS IT WANTED TO MAKE THE FOLLOWING SUGGESTIONS TO THE PRESIDENT IN REGARD TO ASSIGNING CONCESSIONS FOR EXPLORATION:

A. IN ORDER TO OBTAIN MAXIMUM RESULTS IN THE LEAST TIME, NO COMPANY SHOULD BE GIVEN MORE THAN ONE BASIN (OUT OF A POSSIBLE NINE), PROVIDED THERE WERE SUFFICIENT NUMBER LIMITED OFFICIAL USE

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OF BIDDERS.

B. COMPANIES SHOULD BE CAREFULLY CHOSEN ACCORDING TO PROVEN TECHNICAL CAPACITY, FINANCING, AND EXPERIENCE IN OTHER COUNTRIES. CARE SHOULD BE TAKEN TO AVOID "PROMOTIERS."

C. IT WILL BE NECESSARY TO CONSIDER THE TRANSPORTATION AND REFINING CAPACITY OF COMPANIES OR INTERESTED GROUPS IN

ORDER TO ASSURE A CONTINUOUS AND ORDERLY UTILIZATION OF ANY PRODUCTION WHICH MAY BE FOUND. (COMMENT: ULTRAMAR JUST HAPPENS TO BE ON THE SCENE WITH A REFINERY CONCESSION.)

D. ULTRAMAR SPECIFICALLY RECOMMENDS THAT BIDDERS COMMIT THEMSELVES TO CARRY OUT EXPLORATIONS, WITH DRILLING, WITHIN A SPECIFIED TIME.

E. THE LEGITIMATE ASPIRATIONS OF THE STATE IN THE SUBSEQUENT DEVELOPMENT OF ANY OIL FOUND SHOULD BE CLEARLY DEFINED IN ALL ITS ASPECTS AND DETAILS. THESE SHOULD INCLUDE SPECIAL PAYMENTS, ROYALTIES, FIXED OR ACCUMULATED INTERESTS, AND POLICIES ON PRICES AND TAXES.

F. ACCOUNT SHOULD BE TAKEN OF THE CONTRIBUTION TO THE GROWTH AND GENERAL DEVELOPMENT OF THE DOMINICAN REPUBLIC WHICH BIDDERS WOULD MAKE.

6. THE LETTER CONCLUDES THAT ULTRAMAR WOULD BE HAPPY TO ASSIST IN THE FORMULATION AND IMPLEMENTATION OF AN EXPLORATION POLICY " SINCE ITS INTEREST IN THE PETROLEUM INDUSTRY IN THE DR IS ALREADY PROVEN BY ITS PARTICIPATION AS A MAJOR OWNER IN CORPA."

7. CICERO LEAFED THROUGH HIS TWO BOUND VOLUMES WITH THE AMBASSADOR AND EMBOFFS, GIVING A COMMENTARY AS HE WENT ALONG. THE FOLD-OUT MAPS AND CHARTS SEEMED TO BE QUITE PROFESSIONAL. ULTRAMAR IS NOT RPT NOT RECOMMENDING ANY ONE OF THE NINE MAJOR BASINS FOR EXPLORATION, BUT FROM CICERO'S COMMENTS IT WOULD APPEAR THAT TWO GOOD POSSIBILITIES ARE THE VALLEY BEHIND AZUA (WHERE ULTRAMAR HAS A CONCESSION TO BUILD THE REFINERY AND REPORTEDLY IS INTERESTED IN A DEEP-WATER TRANSSHIPMENT PORT FOR LIMITED OFFICIAL USE

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PETROLEUM) AND THE GULF AND WESTERN HOLDINGS IN THE EASTERN PART OF THE COUNTRY (THE STATE OWNS ALL MINERAL RIGHTS.)

8. CICERO REPORTED THAT IN ADDITION TO COLLATING AND ANALYZING ALL AVAILABLE MATERIAL FROM PUBLIC AND PRIVATE SOURCES ON PREVIOUS EXPLORATION EFFORTS IN THE DR, ONE

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OF ULTRAMAR'S GEOLOGISTS HAD VISITED THE SITES OF OIL  
SEEPAGES AND PREVIOUS WELLS.

9. ACCORDING TO CICERO, JERSEY STANDARD ABOUT 1940 PRO-  
DUCED A TOTAL OF 55,000 BARRELS IN THE DR, THE MAXIMUM  
FLOW OF ANY ONE WELL BEING 200 BARRELS PER DAY. WE NOTED  
ON ONE OF HIS CHARTS THAT THE DEEPEST WELL THEN DRILLED  
WAS ONLY 3,300 FEET.

10. THE ULTRAMAR GEOLOGIST, CICERO SAID, HAD COLLECTED  
A SAMPLE OF OIL FROM THE SEEPAGE BEHIND AZUA AND ITS  
ANALYSIS HAD REVEALED A GOOD GRADE OIL OF LOW SULFUR  
CONTENT. CICERO COULD NOT RPT NOT SAY HOW WELL THE OLD  
WELLS WERE CAPPED OR THE CONDITION OF THEIR CASING AND  
TUBING.

11. CICERO COMMENTED THAT ULTRAMAR HAD HAD EXTENSIVE  
EXPERIENCE IN EXPLORATION AND DISCOVERY ABROAD. HE FELT  
THAT WHATEVER THERE WAS TO FIND IN THE DR WOULD PROBABLY  
NOT RPT NOT BE BIG ENOUGH TO ATTRACT THE LARGEST COMPANIES,  
BUT THAT IT SHOULD BE ABOUT RIGHT FOR A FIRM SUCH AS  
ULTRAMAR.

12. ON THE CONSTRUCTION OF THE ULTRAMAR/CORPA REFINERY  
IN AZUA, CICERO SAID THAT HIS COMPANY WAS NOW RPT NOW  
JUST MARKING TIME BECAUSE WORLD PETROLEUM PRICES ARE  
CURRENTLY TOO HIGH FOR THE PROJECT TO BE "INTERESTING.

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13. COMMENT: IT HAS BEEN THE EMBASSY'S IMPRESSION FOR SOME TIME  
THAT ULTRAMAR IS NOT RPT NOW TOO KEEN ON THE REFINERY

PROJECT, WHICH WOULD BE FOR PRODUCTS SOLD IN THE US RATHER THAN FOR DOMESTIC CONSUMPTION. IT MAY BE THAT ULTRAMAR'S ULTIMATE GOAL ALL ALONG HAS BEEN A DEEP-WATER PORT OR A CONCESSION TO EXPLORE FOR OIL OR BOTH. EITHER MIGHT BE QUITE A COUP.

14. NEEDLESS TO SAY, THE POSSIBILITY OF THE DR'S BECOMING EVEN SELF-SUFFICIENT IN PETROLEUM WOULD BE QUITE EXCITING FOR ITS IMPACT ON ECONOMIC AND SOCIAL DEVELOPMENT HERE. THE GODR AT PRESENT HAS LITTLE OR NO CAPABILITY FOR DEVELOPING A SOUND AND COHERENT POLICY FOR EXPLORATION AND DISCOVERY, MUCH LESS FOR PRODUCTION. ON THE OTHER HAND, PRESIDENT BALAGUER DOES HAVE THE EXPERIENCE ALREADY OF ENGAGING AN INDEPENDENT US CONSULTING FIRM TO NEGOTIATE WITH FALCONBRIDGE FOR THAT MINERAL CONCESSION.

15. IN LIGHT OF THIS EXPERIENCE WITH FALCONBRIDGE, BALAGUER JUST MIGHT MOVE FAIRLY EXPEDITIOUSLY ON PETROLEUM EXPLORATION. WHEN WE ACTUALLY HAVE IN HAND THE FULL REPORT WHICH CICERO HAS PROMISED, WE WILL BE IN A BETTER POSITION TO JUDGE THE PROSPECTS FOR PETROLEUM HERE. FROM THE COMMENTS OF CICERO AND BROTHERHOOD, HOWEVER, WE WOULD SAY THAT ULTRAMAR APPEARS TO BE CAUTIOUSLY OPTIMISTIC.  
HURWITCH

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## Message Attributes

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**Review Authority:** kelleyw0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 25 SEP 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <25 SEP 2002 by boyleja>; APPROVED <03 MAR 2003 by kelleyw0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**TAGS:** ENRG, BEXP, US, DR, ULTRAMAR  
**To:** COM STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005